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## Viewing cable 05LIMA1190, FORMER PRESIDENT ALAN GARCIA TALKS POLITICS, TRADE

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- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
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Reference ID	Created	Released	Classification	Origin
<a href="#">05LIMA1190</a>	<a href="#">2005-03-09 22:57</a>	<a href="#">2011-08-30 01:44</a>	<a href="#">CONFIDENTIAL</a>	<a href="#">Embassy Lima</a>

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This record is a partial extract of the original cable. The full text of the original cable is not available.

C O N F I D E N T I A L SECTION 01 OF 04 LIMA 001190

SIPDIS

E.O. 12958: DECL: 03/07/2015

TAGS: [PGOV](#) [ECON](#) [EINV](#) [ETRD](#) [PE](#)

SUBJECT: FORMER PRESIDENT ALAN GARCIA TALKS POLITICS, TRADE  
WITH AMBASSADOR

REF: A. 04 LIMA 3839

[1](#)B. 04 LIMA...

id: 28458

date: 3/9/2005 22:57

refid: 05LIMA1190

origin: Embassy Lima

classification: CONFIDENTIAL

destination: 04LIMA3839

header:

This record is a partial extract of the original cable. The full text of the original cable is not available.

----- header ends -----

C O N F I D E N T I A L SECTION 01 OF 04 LIMA 001190

SIPDIS

E.O. 12958: DECL: 03/07/2015

TAGS: [PGOV](#) [ECON](#) [EINV](#) [ETRD](#) [PE](#)

SUBJECT: FORMER PRESIDENT ALAN GARCIA TALKS POLITICS, TRADE  
WITH AMBASSADOR

REF: A. 04 LIMA 3839

[1](#)B. 04 LIMA 2405

[1](#)C. 04 LIMA 1908

[1](#)D. 04 LIMA 800

Classified By: Ambassador Curt Struble for Reason 1.4 (B, D)

[1](#)1. (C) SUMMARY. The Ambassador met with former President Alan Garcia on 2/28 at APRA Party Headquarters. Garcia stressed the importance to APRA of forming inter-party

alliances for the 2006 presidential campaign, and said he expected to enter into negotiations on an alliance with former President Paniagua later this year. Garcia conceded that President Toledo had done a decent job with the economy, and said that despite pressures to the contrary, Economic Minister Kuczynski was still trying to maintain fiscal discipline in Toledo's last year in office. Garcia predicted that Unidad Nacional legislator Antero Flores-Araoz would be re-elected as President of Congress, and said that President Toledo would definitely finish his term. He said FTA negotiations should be wrapped up with relative ease, but emphasized the importance to APRA of a good deal on agriculture. Garcia offered to assist Embassy's efforts in resolving the dispute between Exxon-Mobil and Peru's tax authority, SUNAT. END SUMMARY.

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ELECTORAL POLITICS  
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12. (C) Ambassador referred to the public statements Garcia had made recently about the need to form alliances for the 2006 presidential election, and asked how this might play out. Garcia said it was clear that in the current scenario no one party could expect to govern by itself. He recognized that he had to be more realistic than in 1985, when APRA thought it could change the world by itself. To the contrary, the party's lack of experience in government hurt it badly. Participating in a coalition, he said, would allow APRA to develop the executive skills of its cadres. He had tried to reach out to the Toledo Government in 2001 to help it achieve broader support, and the political situation could have been more stable now if Toledo had accepted his overtures.

13. (C) Garcia acknowledged that he was a lightning rod, and when he made public comments about forming political pacts, it was natural this would stimulate rejection and rhetoric by APRA's opponents. Fortunately, he had useful individuals like party Co-SecGen Jorge Del Castillo, who was able to serve as a bridge to other sectors, and when these matters were discussed in private, all the parties conceded that political alliances would be necessary. Important consultations involving himself, Unidad Nacional leader Lourdes Flores, and former Interim President Valentin Paniagua, had already taken place with businessmen and other sectoral leaders.

14. (C) Although he was personally impressed with Paniagua, Garcia noted that in a practical sense, he is a man without a party. (NOTE: Paniagua's once-dominant Popular Action Party now holds three of 120 seats in the Congress. END NOTE.) He said Paniagua wants to create a political front together with left-wing Congressman Javier Diez Canseco and former Mayor of Arequipa Juan Manuel Guillen. Garcia was dismissive of including Javier Diez Canseco, but was otherwise interested in being part of such a group.

15. (C) The Ambassador asked Garcia about his public statements six months ago on the possibility that APRA could form an alliance with the Peruvian Communist Party - Patria Roja (PCP-PR). Garcia said PCP-PR takes a pro-Chinese line, which is not necessarily a bad thing, when one looks at China's expanding engagement with the world through its investment policies. Garcia considered PCP-PR SecGen Alberto Moreno a bright, forward-thinking individual (he said Moreno would like to be Minister of Technology), as well as someone to be reckoned with, because of PCP-PR's domination of SUTEP, the national teacher's union. He suggested the Ambassador meet with Moreno some time. Garcia clarified, though, that he was not interested in an alliance with Patria Roja per se, but rather with moderate elements within the party who could help tame SUTEP.

16. (C) Garcia said SUTEP was divided internally between a dominant authoritarian group composed of PCP-PR and Sendero Luminoso elements, versus a democratic wing including many teachers who were Apristas. He said Toledo's education policies had been misguided, as he had tried to co-opt SUTEP by promising to double salaries and putting a few computers in the schools, but had not demanded improved performance in return. As a result, the teaching profession as a whole still constituted a mechanism for spreading subversion and hatred in the schools.

17. (C) Changes in the education system, said Garcia, would be APRA's second-biggest priority for the new government, after agricultural reform. That would only be possible by harnessing and allying with the moderate wing. He said his recent experience when meeting with Apristas in New York had brought home to him the importance of teaching English in Peru's schools as a means of getting ahead in the formal world economy. The English-speaking Apristas he talked with were businessmen and cardiologists, while the monolingual group was made up of house cleaners.

18. (C) Returning to electoral prospects, Garcia noted that Election Day in April 2006 was still 14 months away, and that to run a solid political campaign would take only two or three months. An extended campaign was against his interests, Garcia said, because he would be the flak catcher. Garcia hoped to shorten the active campaign by spending the time between now and October in a dialogue with Paniagua on the terms of a possible alliance. Looking at some of the other major players, he said that Hernando De Soto was a very sensible person who could be a key coalition member. Lourdes Flores had a small base and few political options. Lima Mayor Luis Castaneda was a good manager of a small operation, but was too obsessed with being President. The fact that the latter two were of the same political stripe constituted a problem for both.

19. (C) Garcia intended to work on a "minimum program" with a 10-point consensual agenda for Peru's political woes. (NOTE: This is an allusion to APRA founder Haya de la Torre's platform for the basic reforms needed to transform the Peruvian State. END NOTE.) If negotiations on an alliance were successful, Garcia could foresee a presidential ticket headed up by De Soto and Paniagua, with perhaps the second vice presidency reserved for APRA. More important to his party than the presidency was maintaining its base of 25 to 30 seats in the Congress. Garcia expected that by July, he and his chief advisors would sit down in a round of negotiations with Paniagua and five of his former ministers.

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THE ECONOMY  
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10. (C) Garcia reiterated previous comments (Reftels) that there was no point in beating up on President Toledo or trying to hound him from office. He conceded that Toledo had done a decent job with the economy, and said there was wide respect in the international financial community for Economic Minister Pedro Pablo Kuczynski (PPK). He said that even though most governments tended to lose sight of fiscal discipline in their last year in office, PPK was still trying to hold the line. Garcia perceived PPK's contradictory statements to the Congress about Toledo's ProPeru plan (the GOP's proposal to pay USD 30 monthly subsidies to Peru's poorest citizens) as an attempt to slow down the momentum of the program. Garcia thought ProPeru was ill-conceived and would create a beggar class, just as had been the case in Andalucia with similar programs of Spanish PM Felipe Gonzalez. He also worried that it would saddle the next government with huge costs. The main financial concern that Garcia saw for the GOP at present was a big increase in internal debt due to borrowing from pension funds (AFPs), which unlike foreign borrowing, is not subject to statutory limits.

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THE CONGRESS  
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11. (C) The Ambassador noted that behind the scenes, there seemed to be a spirit of cooperative inter-party relations in the Congress, and asked about what might happen in the next election for the Presidency of Congress in July. Garcia thought it likely that Antero Flores-Araoz would be re-elected as President. Flores-Araoz was a plain, simple and respectable man, under whose leadership the tone of debate had improved considerably from its previously conflictive state. He stressed that another term by Flores-Araoz should not be seen as threatening to President Toledo. Garcia did not think that Congressional censure would result from the scandal over the alleged use of faked voter signatures to register President Toledo's Peru Posible party in 1997-98, although he expected Toledo would have to answer these accusations after he left office.

12. (C) The Ambassador asked if there were still a chance that the Congress would endorse a constitutional reform reinstating the Peruvian Senate (eliminated under Fujimori). Garcia said the opportunity for this had passed in December, even though APRA Congressman Aurelio Pastor had worked hard in the Constitutional Committee to get the measure enacted. Opponents had spread the impression that bringing back the Senate would do nothing more than create 50 expensive political sinecures. Garcia considered this a shame, since the Senate could be a source of reflection, and shift the legislative focus away from the political scandal du jour.

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FREE TRADE AGREEMENT  
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13. (C) The Ambassador noted that the prospects looked good for finishing up the negotiations on the U.S.-Andean Free Trade Agreement (FTA) by June, which could lead to the pact being reviewed by the Peruvian Congress toward the end of the year. When asked how he viewed the FTA, Garcia said Commerce

Minister Alfredo Ferrero had done well in the negotiations, and that most issues considered to be potentially contentious would be wrapped up with relative ease. IPR, for instance, was something for Brazilians and Frenchmen to worry about, not Peruvians. Garcia felt, however, that closing out agriculture would be rough, and that each side would still be pushing at the last hour to get whatever it could. APRA voters were particularly concerned about agricultural issues, and getting a couple of more years of protection for critical products could mean a lot to Peru.

14. (C) In terms of support for the implementation phase of the FTA, Garcia suggested Hernando De Soto could play an important role for both sides. He said De Soto was perceived by the press as a figure of substance, had good links to the U.S. economic community, and would carry more weight (and be seen as more impartial) than any of Toledo's ministers. Ambassador agreed that De Soto could be a useful FTA proponent, but suggested he would be better employed leading a discussion of complementary reforms, such as public education, investment guarantees, anti-corruption initiatives and an improved judiciary, that will be critical to ensuring that FTA benefits become institutionalized.

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EXXON-MOBIL TAX DISPUTE  
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15. (C) The Ambassador raised the dispute between Exxon-Mobil and Peru's tax authority SUNAT, outlining the fact that even though some relief had been achieved for companies selling fuel which is subsequently re-exported, Exxon-Mobil was unable to use its tax credit as currently constituted. He explained that additional remedial measures were under consideration in the Congress, but that APRA Congressman Juan Valdivia had opposed this action in the Economic Committee. Garcia said he would take the issue up, and promised to help with remedial legislation. Ambassador said he would forward copies of the relevant SUNAT decisions, plus a copy of the draft legislation (these have since been provided).

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AMBASSADOR'S COMMENT  
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16. (C) There are two categories of fools in Peru -- those who refuse to believe anything Alan Garcia says and those who accept him at face value. Most of the business community and virtually all of the established non-APRA politicians believe that Garcia,s tack toward economic moderation is completely insincere. I don,t agree; Garcia has learned some lessons from his failed administration, and a second factor is also at work. APRA,s traditional political stronghold is along the coast, which is the area that has benefited most from the free market, free trade policies of the past 10 years. That is having an impact on the party generally and on Garcia specifically. For all of that, I don,t have the sense that Garcia,s present advocacy of fiscal responsibility and pro-investment policies are so deeply rooted that they would withstand the political temptation of adopting a short-term outlook if he were in power. Garcia,s admiration of Hernando de Soto is genuine and -- interestingly enough -- is reciprocated to a fair degree. In private conversation with me, De Soto has recalled fondly his work with Garcia during the latter,s Presidency and his constructive relationship with APRA. (By contrast, the famous economist has nothing good to say about Toledo.) Still, De Soto is very wary of being used by Alan.

17. (C) The credibility of Garcia,s offer to take the junior role in a governing coalition is constantly undercut by APRA Congressmen who insist that their party must get the Presidency. I think that Garcia really is open to the idea, though not married to it. He realizes that his high negatives are likely to keep him from the Presidency unless he can overcome the public,s memories of his economically disastrous term. He is young enough to focus on his prospects in the Presidential election of 2011 rather than 2006, if participating in a coalition led by someone else can help him reform public perceptions of him.  
STRUBLE

=====CABLE ENDS=====